



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

Board of Directors  
Delaware Transportation Authority  
Delaware Transit Corporation  
Dover, Delaware

October 12, 2007

Ladies and Gentlemen:

We have audited the financial statements of the Delaware Transit Corporation (DTC), a subsidiary of Delaware Transportation Authority, which is a blended component unit of the State of Delaware, for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. In planning and performing our audit of the financial statements of DTC, in accordance with auditing standards generally accepted in the United States of America, we considered DTC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of DTC's internal control. Accordingly, we do not express an opinion on the effectiveness of DTC's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the attached **Appendix A**.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the DTC's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of the State of Delaware Department of Transportation, management, Office of the Governor, Attorney General, Office of Management and Budget, Department of Finance and others within the State and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

## New Comments

### Inventory Cut-off

#### *Observation*

From a financial accounting perspective, we noted that DTC's year-end inventory cut-off is complex due to business requirements to keep maintenance facilities open during the inventory process.

#### *Recommendation*

We recommend that DTC review its year-end inventory cut-off procedures to ensure that such procedures provide reasonable assurance that cut-off is appropriate.

#### *Management's Response*

DTC follows the Year-End Inventory steps as outlined in the Accounting Politicizes and Procedures Manual. These procedures provide reasonable guidance that ensures that not only the cut-off is appropriate but that all receipts and issues during this period of time are manually tracked and held. No related entries are recorded in PeopleSoft until after all the necessary adjustments and reports related to the year-end inventory are completed.

### New Accounting Pronouncements

#### *Observation*

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (the Statement), establishing standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities, assets, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. OPEBs include healthcare and life insurance benefits when provided separately from pension benefits.

The Statement establishes that the cost of OPEBs should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, DTC's OPEB plan is financed on a pay-as-you-go basis, and DTC's financial statements do not report the financial effects of OPEBs until the promised benefits are paid.

The Statement requires DTC to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan. The Statement also requires an actuarial valuation, updated at least biennially, to evaluate DTC's OPEB obligations. The Statement is effective for DTC's year ending June 30, 2008.

Additionally, GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, is effective for the year ending June 30, 2008, and will require DTC to conform the note disclosure and required supplemental information for its pension plans to that required for OPEB under GASB 45.

#### *Recommendation*

We recommend that DTC engage an actuary to perform the necessary valuation of its OPEB plans and ensure that the actuary for its pension plans is considering the requirements of GASB No. 50 for the year ended June 30, 2008.

*Management's Response*

DTC will advise our actuary to follow the requirements of GASB No. 45 and 50. In order to ensure that the actuary has the information necessary to comply with these requirements, DTC will set forth standards for the measurement, recognition and display of other post employment benefits expense/expenditures and related liabilities, assets, note disclosures, and any applicable required supplementary information. Furthermore, DTC will ensure that accurate plan documentation and census data is submitted to the actuary in a timely manner.

**Status of Prior Year Comments**

**Reconciliation of GFI Reports**

*Recommendation*

We recommend that reconciling items researched as part of the GFI report reconciliation to cash deposits process be documented, maintained centrally, and available for subsequent review.

*Status – Completed*

*Management's Response*

DTC now makes appropriate notations on the worksheets for the variances and retains them appropriately.